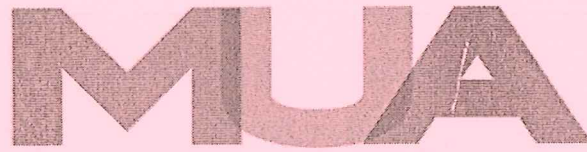


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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 221: ACCOUNTING FOR LIABILITIES

DATE: 29<sup>TH</sup> November 2021

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

**QUESTION ONE**

- a) Trendler, incl transferred to stockholders some of its investments in marketable securities costing \$1,250,000 by declaring a property dividend on December 28, 2017 to be distributed on Jan 30, 2018 to stockholders on Jan 15, 2018. At the date of declaration, the securities have a market value of \$2,000,000. Show journal entries to record this transaction **(7 Marks)**
- b) Examine any three costs involved in issuing stock/equity **(6 Marks)**
- c) Seal Corporation, which closes its books each year on dec 31, receives its property tax bill in May each year. The fiscal year for the city and lonety in which seaboard to seal corp. is located begins on May 1 and ends on the following April 30. Property taxes of sh 36,000 are assessed against seal corp property on January 1, 2008. And become a lien on May 1, 2008. Tax bills sent out in May and are payable in equal installments on July 1 and September 1. Show the entries to record the liability, monthly tax charges and the tax payments for taxes becoming a lien on may1, 2008 **(12 Marks)**

**QUESTION TWO**

- a) Discuss five disadvantages of leasing **(5 Marks)**
- b) Rathbone Co. issues 2,000 convertible bonds at the start of 2012. The bonds have a three-year term, and are issued at par with a face value of KSh.1,000 per bond, giving total proceeds of KSh.2,000,000. interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 common shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%. At the issue date, the market price of one common share is KSh.3. The dividends expected over the three-year term of the bonds amount to 14c per share at the end of each year. The risk-free annual interest rate for a three-year term is 5%. Determine the value of the equity component in the bond **(10 Marks)**

**QUESTION THREE**

- a) Define the term Deferred Tax liability **(2 Marks)**
- b) On 1 January 20 x 1 Biashara Co purchases a debt instrument for its value of KSh.1,000. The debt instrument is due to mature on 31 December 20 x 5. The instrument has a principal amount of KSh.1,250 and the instrument carries fixed interest at 4.72% that is paid annually. Show how Biashara Co. should account for the debt instrument over its five-year term. **(13 Marks)**

**QUESTION FOUR**

- a) Manchester Inc. in 2009 (its first year of operation) has revenues of sh 130,000 for book purposes and sh 100,000 for tax purposes. It also has expenses of sh 60,000 for both book and tax purposes. The sh 30,000 difference in revenues results because Manchester recognizes revenues on the accrual basis for book purposes, but reports revenues as cash is collected for tax purposes. Prepare a report for Manchester's pretax financial income and taxable income for 2009 **(10 Marks)**
- b) Examine five limitations associated with use of ratios in financial analysis **(5 Marks)**

**QUESTION FIVE**

An employer pays a lump sum to employees when they retire. The lump sum is equal to 1% of their salary in the final year of service, for every year of service they have given.

- a) An employee is expected to work for 5 years (actuarial assumption)
- b) His salary is expected to rise by 8% pa (actuarial assumption)
- c) His salary in 20 x 1 is Sh.10,000
- d) The discount rate applied is 10%pa

**Required**

Calculate the amounts chargeable to each of years 20 x 1 to 20 x 5 and the closing obligation each year, assuming no change in actuarial assumptions. **(15 marks)**

**QUESTION SIX**

The shareholders equity section of the balance sheet of National foods included the following a/cs at Dec 31, 2018

Shareholder's equity	(\$ in millions)
Paid in capital	
Common stock, 120 million at \$1 par	\$120
Paid in capital-excess of par	836
Retained earnings	<u>2,449</u>
Total shareholders equity	<u>\$3,405</u>

**Required**

1. During 2019, several transactions affected the stock of National foods. Prepare the appropriate entries for these events.
  - a) On March 11, National foods sold 10 million of its 9.2% preferred shares, \$1 par per share, for \$44 per share-by-share purchase contract. 50% of the selling price was received for the remainder. The shares were not issued but held in escrow until the note was paid. **(5 marks)**
  - b) On November 22, 1 million common shares, \$ 1 par per share, were issued in exchange for eight labeling machines. Each machine was built to custom specifications so no cash price was available. National foods stock was listed at \$10 per share. **(5 marks)**

- c) On November 23, 1 million of the common shares and 1 million preferred shares were sold for \$60 million. The preferred shares had not traded since March and their mkt value was uncertain (5 marks).

